

Michigan Nonprofit Association

Memorandum

To: Members of the Regulatory Reform Committee, Michigan House of Representatives

From: Kyle Caldwell, President & CEO, Michigan Nonprofit Association

Re: Opposition to HB 5121 Substitute

A bill to amend the Traxler-McCauley-Law-Bowman Bingo Act

Date: December 9, 2009

Testimony

Michigan Nonprofit Association opposes HB 5121 and the Substitute version of the bill.

Given the current economy and the impact of the state's structural deficit, nonprofits in Michigan are struggling to provide for the increased demand for their services while facing decreasing funding for those services. Utilizing multiple approaches to raising support has become even more critical in this trying financial time. An increasing number of nonprofits have turned to charitable gaming, and specifically events such as "millionaire parties" (example: Texas Hold'em), to help raise funds.

The HB 5121 Substitute would amend the Traxler-McCauley-Law-Bowman Bingo Act to create two separate definitions of millionaire parties – large and small. The current law has a single definition that covers all millionaire parties, which at one time referred mostly to "Las Vegas nights." Substitute HB 5121 would define a large millionaire party to mean a "millionaire party that is conducted at a location not owned and operated by the qualified organization for the regular use of its members or rented on a continual basis for the regular use of its members." A small millionaire party is defined as "a millionaire party that is conducted at a location owned and operated by the qualified organization for the regular use of its members or rented on a continual basis for the regular use of its members and that is operated primarily by members of the qualified organization or related qualified organization." Most nonprofits participating in millionaire parties would fall under the definition of a "large millionaire party" because the best return for such an event is to hold the event at a location with a stable or reliable player base. Therefore most nonprofits contract with for profit businesses that operate these events as a business. Using an outside location that hosts frequent gaming events is more likely to provide a player base that will ensure good income for the charity than using a facility owned or occupied by the nonprofit organization seeking to raise funds through charitable gaming as a one-night event.

The HB 5121 Substitute assesses a fee of \$65/day for a license for a small millionaire party, and \$100/day for a large millionaire party. It also raises the fees for other licenses ranging from large and small bingo to raffles and annual or special charity games.

We have heard that an increased demand for licenses from nonprofits has caused a longer turnaround time for the issuance of these licenses, and that this is the reason for increasing the fees – to provide additional funding for the processing of these licenses. However, there is nothing in this bill that would designate that the fees go to support the processing of licenses, and nothing to guarantee that licenses would be processed more expediently. The fees assessed by this Act go to fund the operations of the Lottery Commission, which oversees not only licenses for charitable gaming, but all administration related to gaming in the state of Michigan. Essentially these fees are asking nonprofits to help fund the activities of the overall Lottery Commission, with no guarantee of a return for nonprofits and their effectiveness and compliance. To ask this of the nonprofit community, which is already struggling to pick up the pieces in a state that is cutting services to its citizens on a regular basis in an attempt to balance a structurally deficient state budget, is something that Michigan Nonprofit Association cannot support.

While we support certain aspects of this bill that calls for greater accountability of location owners and more flexibility in the licensing process and the award of bingo prizes, we cannot support greater fees with no assurance of quicker processing of licenses, especially in light of the current financial status of many Michigan nonprofits. For those reasons, we ask you to oppose HB 5121.

Michigan's Nonprofits Struggle with Economic Downturn

Wesley Miller
Michigan Nonprofit Association
Johnson Center at Grand Valley State University

Introduction

To understand how recent economic trends have affected Michigan's nonprofit sector, the Michigan Nonprofit Association and the Johnson Center at Grand Valley State University surveyed more than 300 nonprofits on "Critical Issues Affecting Michigan's Nonprofit Sector". The following pages present key findings from the survey conducted in October 2008.

Demand for Nonprofit Services Increases; Economy is Main Factor

- Michigan nonprofit organizations reported an increase in demand for their core services over the last 12 months. As shown in *Figure 1*, most (71%) of responding organizations have seen an increase in demand, while only 5% of organizations have noticed a decrease in demand. The survey also explored the reasons behind the growth in demand.

Figure 1
Change in Demand Over the
Past 12 Months

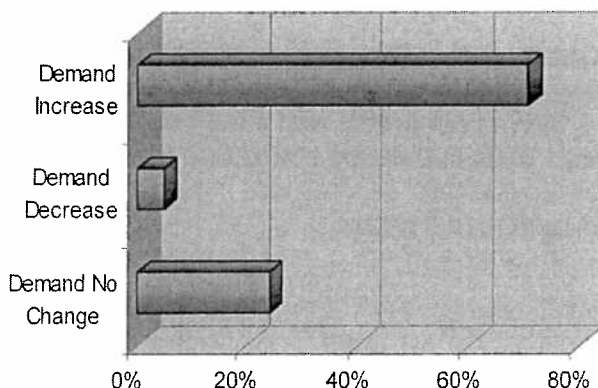
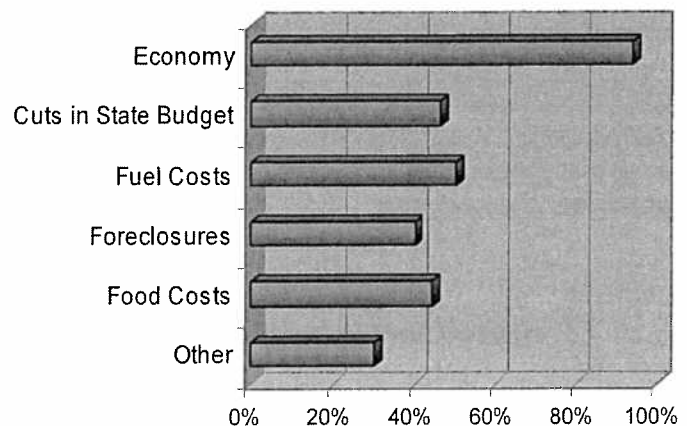


Figure 2
Reasons for Increased Demand



- As shown in *Figure 2*, the vast majority (94%) of nonprofits that have seen an increase in demand pointed at the economy as one of the key reasons. Substantial percentages of organizations also believe that cuts in the state budget (56%), increased fuel costs (50%) and food costs (44%), as well as foreclosures (40%) have played a role in the demand increase. Seventy percent of organizations reported that multiple factors have contributed to the increased demand for their core services.
- Sixty five percent of Michigan nonprofits 'strongly' or 'somewhat' agree that they have been able to meet their increased demand over the past 12 months. However, 35% of organizations have been unable to do so.

- Nearly all (97%) of Mid-Michigan nonprofits experienced an increase in demand over the past 12 months, which was an appreciably larger increase than any other region in Michigan.

Nonprofits Forecast Increased Demand for 2009

- Nearly 80% of the organizations surveyed expect to see an increase in demand during the next year. Only 8% of nonprofits anticipate a decrease in demand.
- Particularly noteworthy, 96% of Human Services organizations, as shown in *Figure 3*, believe that demand for their core services will grow over the next year.

Figure 3
Projected Demand Change for 2009

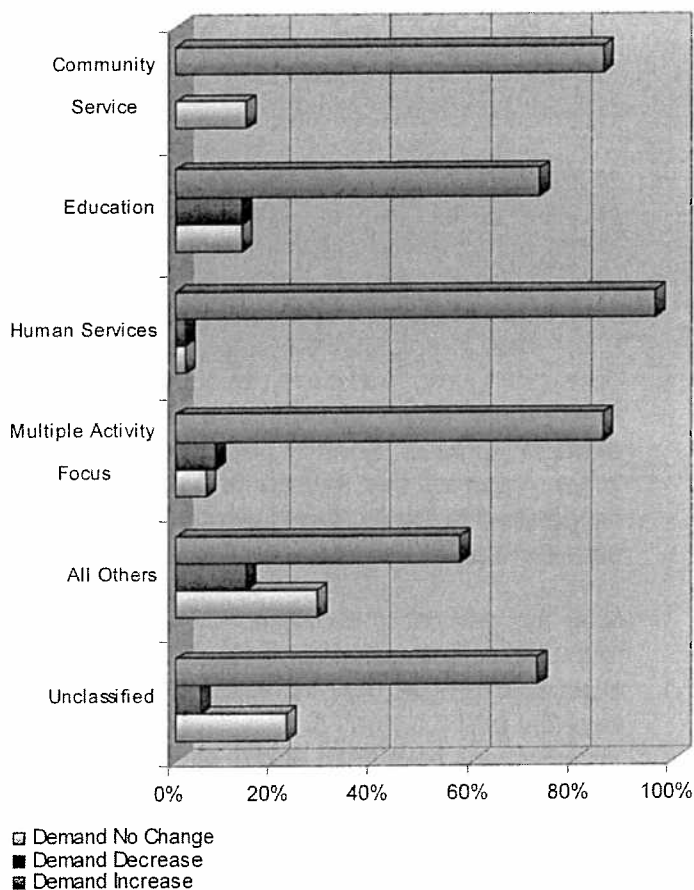
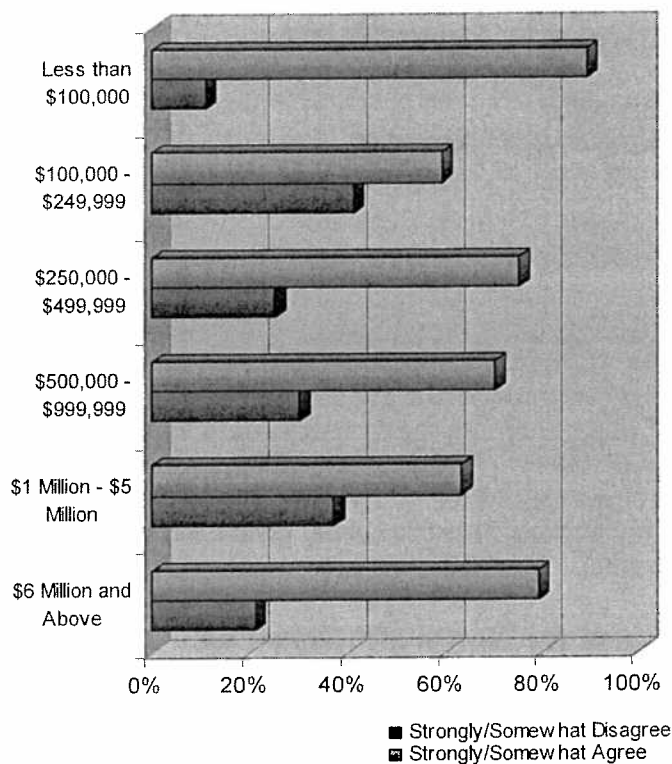


Figure 4
Fuel Prices Have Impacted Your Organization



Increasing Fuel Costs Impact Nonprofit Organizations

- The survey found that 73% of organizations agreed that increased fuel costs affected their ability to provide their core services. The services of 27% of nonprofits have not been affected by fuel costs.
- Greater fuel costs appear to affect smaller organizations the most. As shown in *Figure 4*, 89% of nonprofits with a budget of less than \$100,000 dollars stated that their ability to provide their services was impacted by mounting fuel prices.

Financial/In-kind Support Decreases for Half of Nonprofits

- Fifty percent of organizations surveyed stated that their financial/in-kind support declined over the last 12 months. Some organizations (17%) saw a growth in support while a third (33%) of nonprofits revealed that their support had not changed during the past year.
- Sixty percent of Mid-Michigan nonprofits and 63% of Southeast Michigan nonprofits experienced decreases in financial and in-kind support over the past 12 months, as is shown in *Figure 6*. Separately, 40% of organizations in the rest of Michigan reported such a decrease.
- As shown in *Figure 5*, 31% of organizations with budgets over \$6 million have experienced a growth in financial/in-kind support over the past 12 months. Comparatively, only 13% of nonprofits with budgets of less than \$6 million saw an increase in support. This finding suggests that the largest nonprofits in Michigan have had more success at developing their financial and in-kind support over the past 12 months.

Figure 5
Change in Financial/In-kind Support Over the Past 12 Months

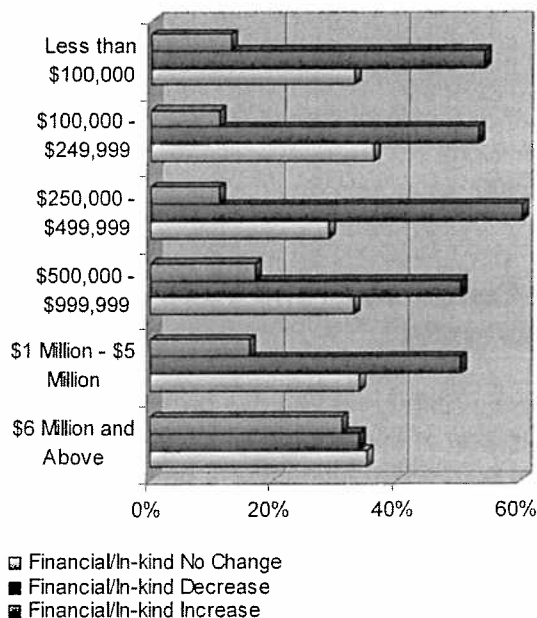
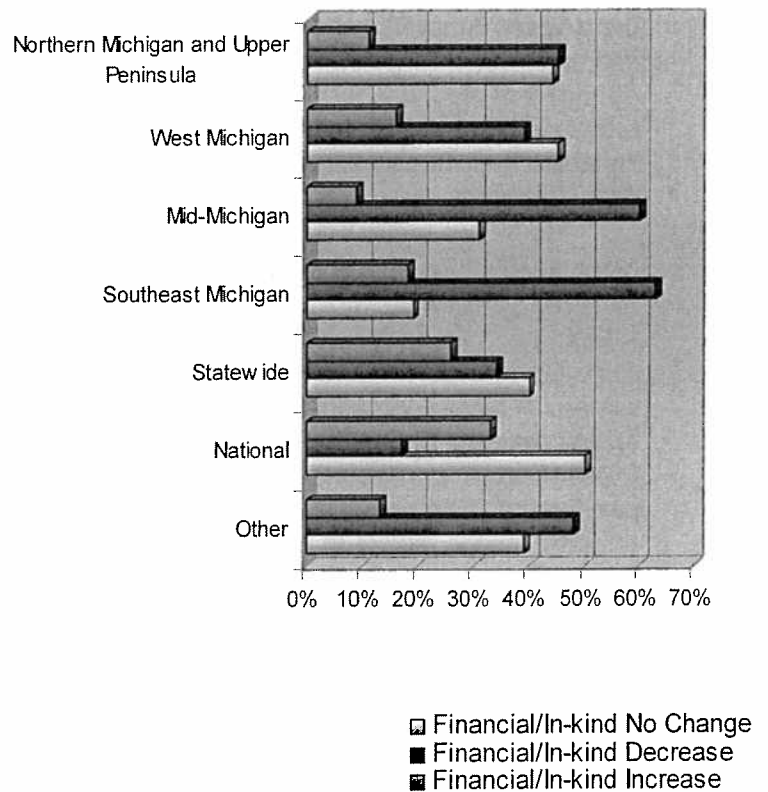


Figure 6
Change in Financial/In-kind Support Over the Past 12 Months



Majority of Nonprofits Expect Financial and In-Kind Support to Decrease in 2009

- The majority (54%) of nonprofits expect that financial and in-kind support will decrease in the coming year. Similar to the support trend of the last 12 months, 16% of organizations expect an increase in financial and in-kind contributions in 2009, while 29% of those surveyed anticipated no change in their support for the coming year.
- West Michigan was the only region in which less than half (48%) of responding nonprofits forecasted a decrease in support.

Multiple Factors Have Negative Impact on Fundraising Efforts

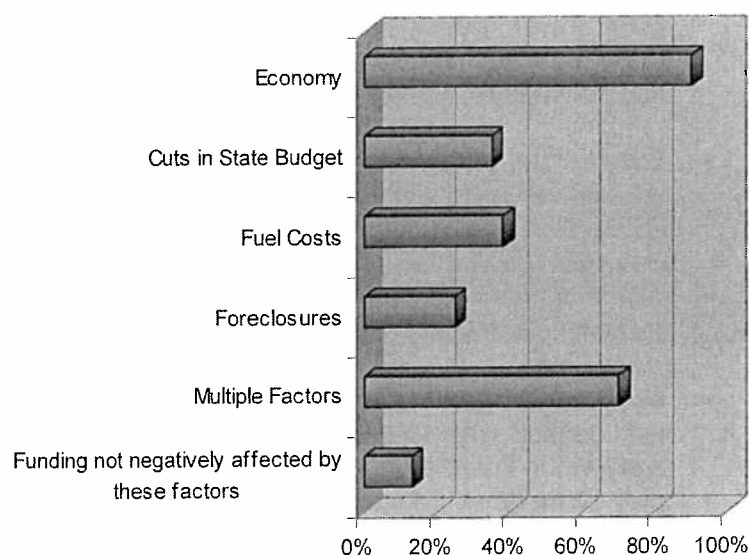
- The survey found that the sluggish economy has not only been a reason behind increased demand for nonprofit services, but it has also had an effect on organizational fundraising. As shown in *Figure 7*, 90% of those surveyed responded that the economy has negatively impacted their fundraising efforts during the past 12 months.
- The economy was the most prominent issue affecting fundraising, but fuel costs (38%), cuts in the state budget (35%), and foreclosures (25%) also negatively impacted fundraising. A large proportion of organizations (70%) believed that multiple factors negatively affected fundraising. A minority of organizations (13%) have not felt the negative effects of these factors in their fundraising.

Conclusions

This survey found that there are several overlying trends in Michigan's nonprofit sector:

- Demand for nonprofit services has increased during the past 12 months. Organizations expect this trend to continue and forecast increased demand for nonprofit services in 2009.
- Increased fuel costs have impacted most nonprofits in the state. Smaller organizations have been impacted the most by increased fuel costs.
- Most nonprofits have experienced a decrease in financial and in-kind support over the past 12 months. A majority of organizations expect financial and in-kind support to decrease in 2009.
- The state of the economy has affected nonprofits in at least two ways: it has been a reason behind increased demand, and it has played a role in decreased financial and in-kind support.

Figure 7
Factors Negatively Impacting Fundraising
Over the Past 12 Months



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Financial Crisis Impacts Nonprofits in Michigan

Wesley Miller
Michigan Nonprofit Association
Johnson Center at Grand Valley State University

Introduction

In mid-January, the Michigan Nonprofit Association and the Johnson Center at Grand Valley State University surveyed over 200 nonprofits in Michigan to determine how the recent financial crisis has affected their organizations. The results from this survey revealed that:

- Nearly half (45%) of responding nonprofit organizations raised fewer funds in 2008 year-end fundraising compared to previous years.
- Similarly, 45% of nonprofits receiving government funding have experienced delays in scheduled government payments.
- Of the 44% of organizations that have seen a decrease in cash flow, the majority (57%) have reduced the number of employees in their organization.

Figure 1
2008 Year-End Fundraising Compared to Previous Years

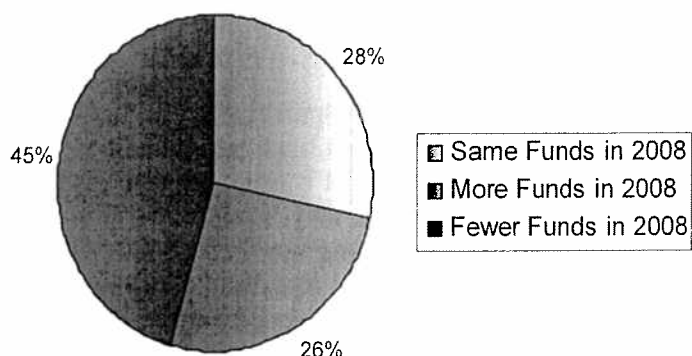
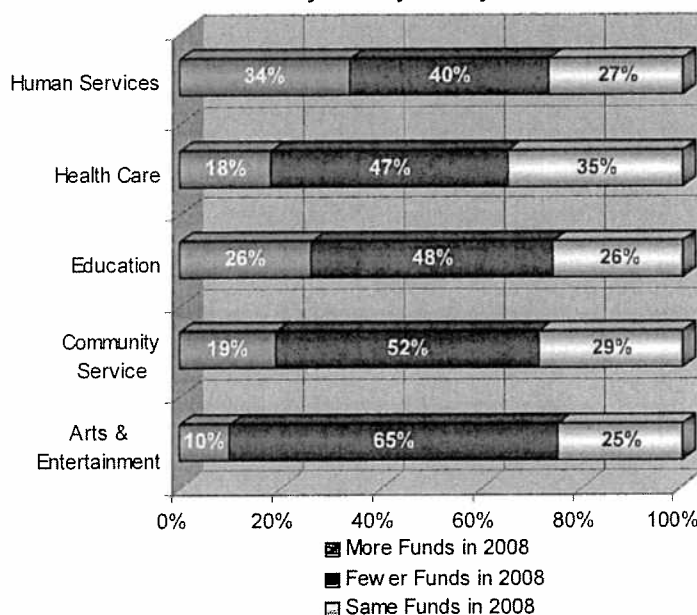


Figure 2
2008 Year-End Fundraising Compared to Previous Years
by Primary Activity Focus



Year-End Fundraising

End of the year fundraising efforts play an important role in the financial health of many nonprofit organizations.

- *Figure 1* shows that among participating organizations, 45% reported that fewer funds were raised in 2008 year-end fundraising compared to previous years. A little over a quarter (26%) of organizations raised more funds in their 2008 year-end campaign, while 28% raised about the same amount of funds.
- As shown in *Figure 2*, Arts & Entertainment nonprofits were the hardest hit with 65% of these organizations stating that they had raised fewer funds in their 2008 year-end fundraising efforts.

Delays in Scheduled Government Payments

Sixty five percent of responding nonprofits receive government funding.

- Of the nonprofits that receive government funding, 45% have experienced a delay in scheduled payments from the government.
- The percentage of nonprofits experiencing delays in scheduled government payments varies significantly by organizational activity focus as can be seen in *Figure 3*.
- As shown in *Figure 4*, 29% of respondents that have experienced delays in scheduled government payments reported that the payments have been over 90 days late.

Figure 3
Nonprofits That Have Experienced Delays in Scheduled Government Payments by Activity Focus

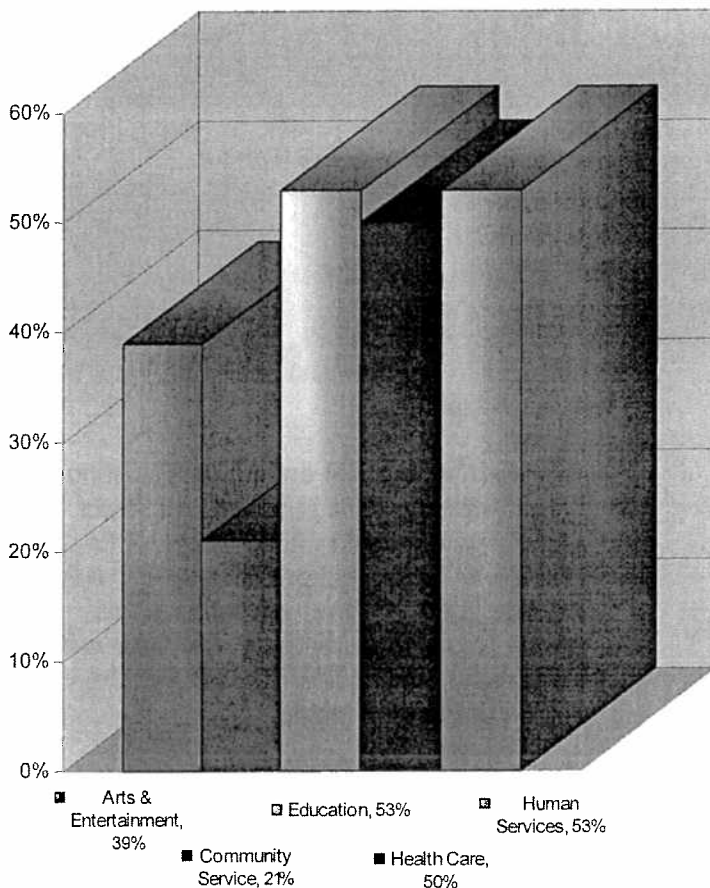
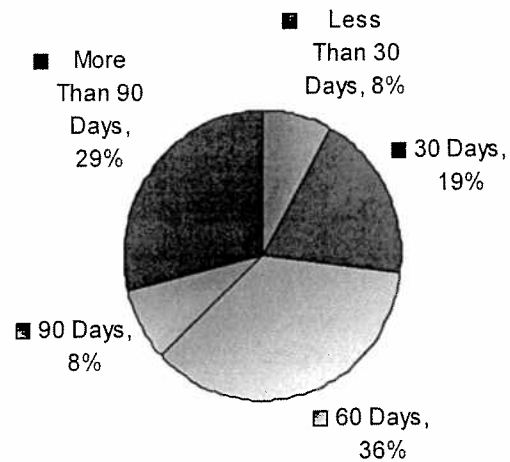


Figure 4
Number of Days Government Payments Have Been Delayed



Lines of Credit

A line of credit was defined to participants as an open ended revolving loan in which a bank lends an organization money up to a specified amount as requested by the organization. Thirty nine percent of surveyed nonprofits stated that they have a line of credit.

- Of responding nonprofits with lines of credit, 16% reported that their line of credit had been reduced in the past year, while 46% of organizations stated that the financial crisis has made obtaining lines of credit more difficult.
- Southeastern Michigan nonprofits that have lines of credit have been particularly affected with 27% of these organizations reporting that their line of credit had been reduced in the past year and 66% of organizations stating that the financial crisis has made obtaining lines of credit more difficult.

- Forty three percent of nonprofits that have had difficulty in obtaining lines of credit reported that this has made it harder for their organization to provide its core services.

Cash Flow

The survey asked participating nonprofits how the tightening of the credit market has affected their organization's cash flow which was defined as the transfer of money into and out of their organization over a period of time.

- The majority of organizations (53%) stated that their cash flow has not changed; however, 44% of organizations have seen their cash flow decrease as a result of the tightening credit market.

Figure 5
Change in Cash Flow Resulting from the Tightening of Credit Markets by Activity Focus

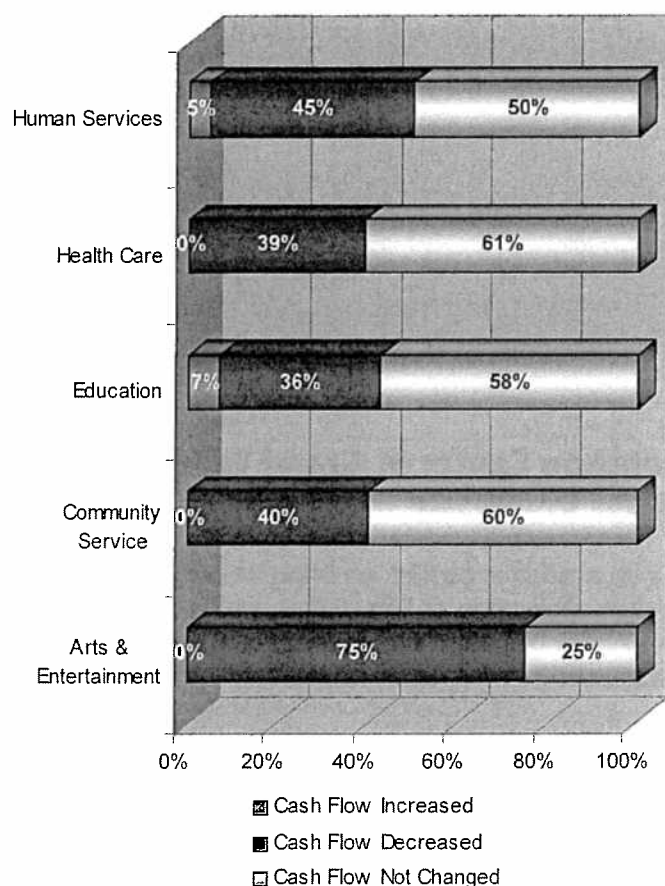
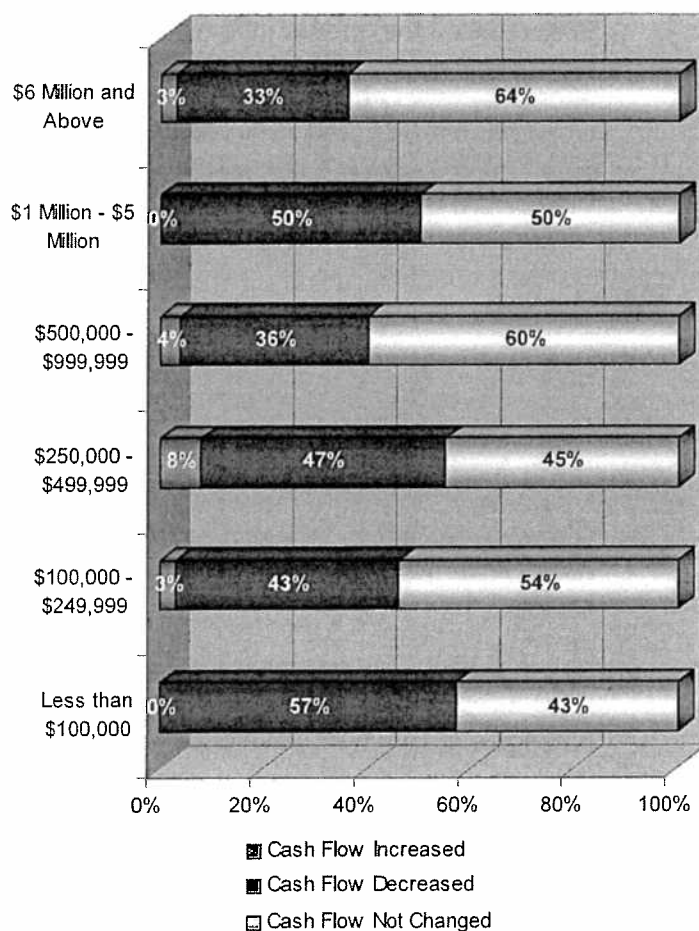


Figure 6
Change in Cash Flow Resulting From the Tightening of Credit Markets by Annual Budget



- Arts & Entertainment nonprofits have been the most affected by the tightening of the credit market with 75% of these organizations reporting a decrease in cash flow, as shown in *Figure 5*.
- Figure 6* shows that 57% of organizations with annual budgets of less than \$100,000 experienced a decrease in cash flow due to the tightening of the credit market.

Responding to Decreases in Cash Flow

Organizations that have experienced decreases in cash flow have responded in different ways.

- As shown in *Figure 7*, of participating nonprofits that saw a decrease in cash flow, 57% reduced the number of employees in their organization, 54% reduced the services offered by their organization, 43% reduced employee benefits, and 21% reduced the organization's hours of operation. Over a third (37%) of these organizations have responded in multiple ways.

Conclusion

The results from this survey illustrate that the nonprofit sector has been impacted by the financial crisis in a number of ways. Some of the most noteworthy findings are:

- Forty five percent of surveyed organizations raised fewer funds in 2008 year-end fund-raising.
- Nearly half of nonprofits that receive government funding have experienced delays in scheduled government payments.
- The majority of organizations that have seen a decrease in cash flow have reduced the number of employees in their organization.



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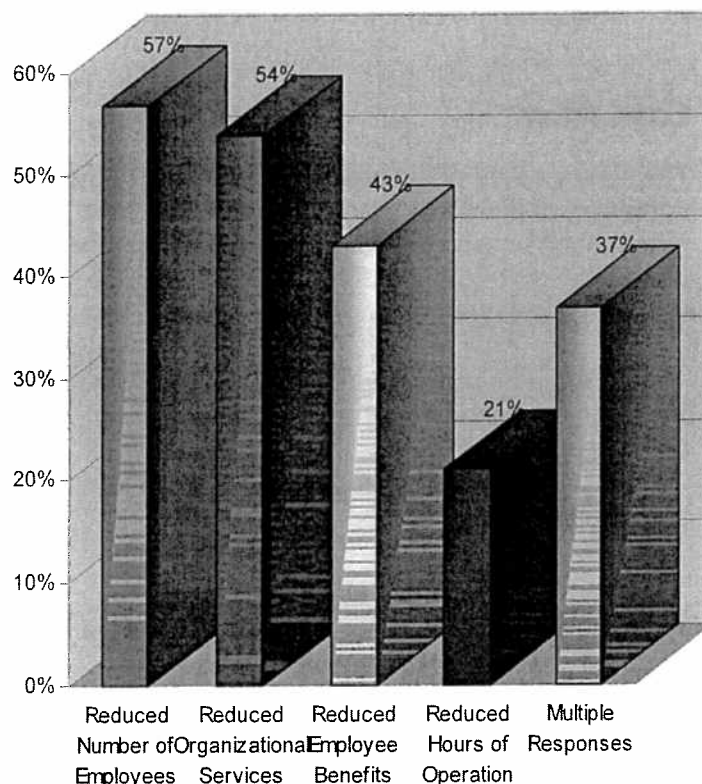
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Figure 7
Responses to Decreases in Cash Flow



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at Grand Valley State University

Trends in Government Funding

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Introduction

In April, the Michigan Nonprofit Association and the Johnson Center at Grand Valley State University surveyed over 175 nonprofits in Michigan to assess the trends of government funding in Michigan's nonprofit sector. This survey was conducted to follow up on a January report which revealed that 45% of nonprofits were experiencing delays in scheduled government payments.

In this most recent survey, organizations were asked to identify specifically where the delay in government funding was occurring: 39% reported delays at the Local level, 26% reported delays at the State level, and 16% reported delays at the Federal level.

The survey also found that 49% of responding organizations reported raising less financial/in-kind support in 2009 compared to previous years.

Figure 1
Federal Agencies by Percentage of Responding Nonprofits Receiving Their Funds

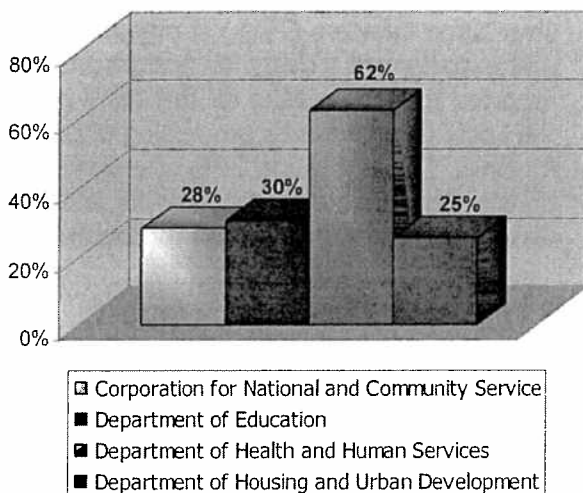
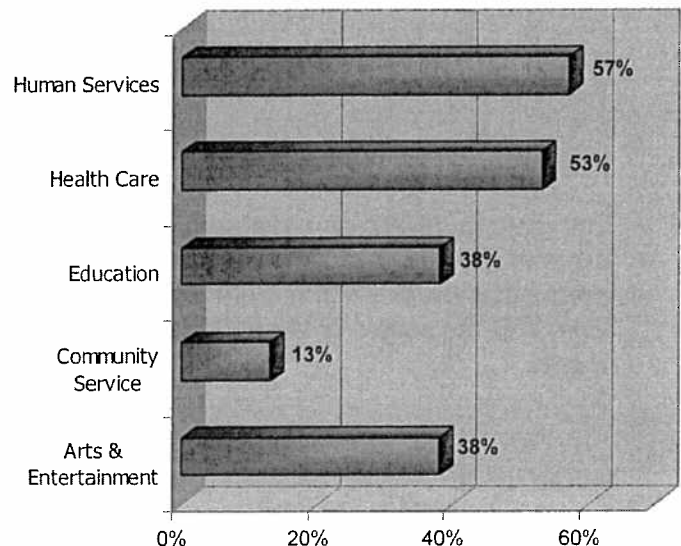


Figure 2
Nonprofits That Receive Federal Funding by Primary Activity Focus



Federal Funding

Forty five percent of participating nonprofits receive funding from the Federal Government.

- As shown in *Figure 2*, more than half of Human Services and Health Care nonprofits receive federal funding.
- Respondents were most likely to receive federal funding from the Department of Health and Human Services (62%) followed by the Department of Education (30%) and the Corporation for National and Community Service (28%), as is shown in *Figure 1*.
- Of the nonprofits that receive Federal funding, 16% have experienced a delay in scheduled payments.

State Funding

Fifty two percent of participating nonprofits receive funding from the State Government.

- Organizations were most likely to receive State funding from the Department of Human Services (51%) followed by the Department of Community Health (39%) and the Department of Education (25%), as is shown in *Figure 3*.
- Of the nonprofits that receive State funding, 26% have experienced a delay in scheduled payments. Human Services (33%) and Arts and Entertainment organizations (23%) were the most likely to experience delays in State payments.
- The majority (87%) of organizations that had experienced delays in State payments reported that the Department of Human Services was the source of the delayed payments.

Figure 3
State Agencies by Percentage of Responding Nonprofits Receiving Their Funds

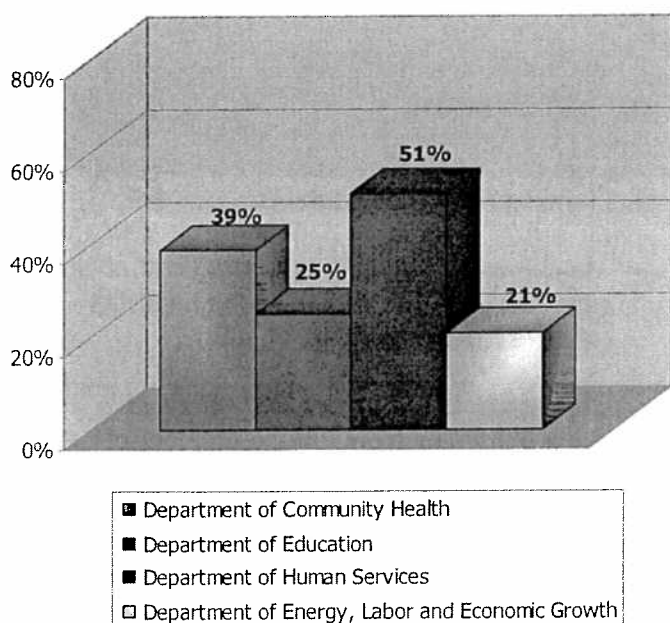
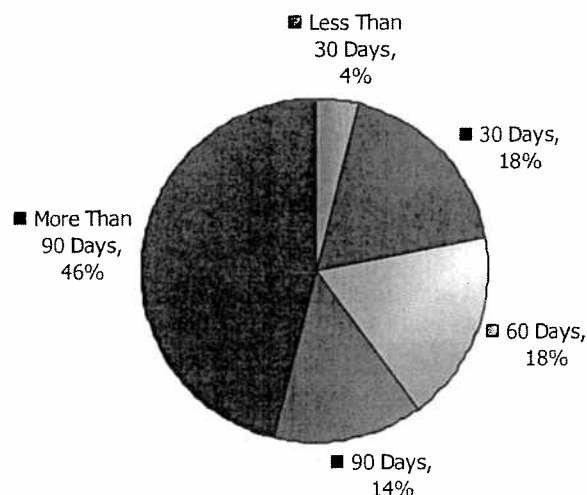


Figure 4
Number of Days Local Government Payments Have Been Delayed



Local Funding

Thirty seven percent of participating nonprofits receive funding from Local Government.

- Of the nonprofits that receive Local funding, 39% have experienced a delay in scheduled payments.
- As shown in *Figure 4*, 46% of respondents that have experienced delays in Local Government payments reported that the payments have been over 90 days late.
- Over three quarters (76%) of organizations that experienced a delay in Local payments reported that the reason for the delay was the Local Government's processing of the funding. The remaining 24% of organizations believe cash flow concerns for Local Governments was the reason for the delay.

2009 Financial/In-Kind Support

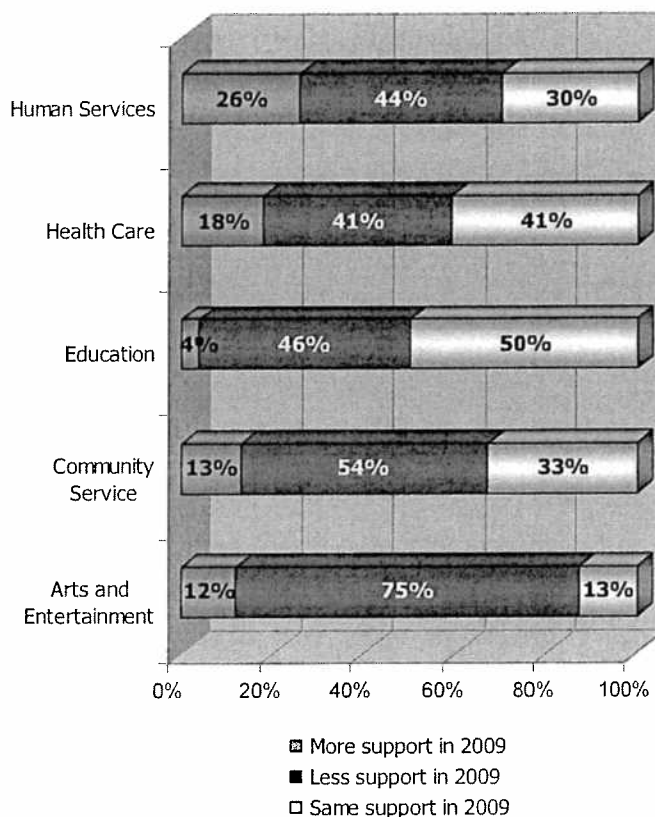
The survey asked participants how their 2009 financial/in-kind support compared to previous years.

- About half (49%) of organizations reported raising less financial/in-kind support in 2009 compared to previous years, with 16% of respondents raising more support this year and 35% having raised the same amount of support.
- As shown in *Figure 5*, Arts & Entertainment nonprofits have had the greatest difficulty in raising financial/in-kind support with 75% of these organizations stating that they have raised less support in 2009.
- Human Services nonprofits were the most likely to have raised more funds in 2009 compared to previous years, as is also shown in *Figure 5*.

Conclusion

As highlighted in previous reports, nonprofit organizations are experiencing a significant increase in demand and decrease in revenue. Short on resources, any delay in payment from government makes it difficult for nonprofit organizations to meet the needs of Michigan's children and families. Although this report highlights a small sample of nonprofit organizations, its findings are consistent with the concerns expressed by nonprofits across the state.

Figure 5
2009 Financial/in-kind Support Compared to Previous Years
by Primary Activity Focus



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